

# What the 2026 tax proposals mean for Ugandans

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As Uganda prepares for the 2026/27 financial year, the government's fiscal direction is becoming increasingly clear. The priority is to raise more domestic revenue to support economic growth while reducing reliance on external borrowing. With the country's tax-to-GDP ratio still hovering around 13 percent, well below the Sub-Saharan African average, policymakers are under pressure to push this closer to the medium-term target of 16 percent and beyond.

At the same time, public spending continues to rise. Investments in infrastructure, energy, and social services are expanding, placing additional strain on government finances. In response, the Uganda Revenue Authority has been given an ambitious revenue target, prompting a fundamental rethink of how taxes are designed, collected, and enforced.

It is within this context that the proposed 2026 tax amendments should be understood, not simply as routine legal updates, but as a broader shift in fiscal strategy. As one observer notes, "the focus is no longer just on taxing income, but on taxing activity, transactions, and consumption in real time."

The reforms are wide-ranging. They include new taxes on gains from non-business asset disposals, backed by a 6 percent withholding tax; the reclassification of software payments as royalties, subject to higher withholding tax; and the introduction of a 0.5 percent minimum tax on companies that report losses over long periods. Additional measures expand withholding tax to sectors such as telecommunications, gaming, and entertainment, while adjustments to personal income tax thresholds aim to ease the burden on low-income earners.

On the indirect tax side, the government proposes raising the VAT



URA Commissioner General John Musinguzi

registration threshold from Shs 150 million to Shs 250 million. It also plans to remove withholding VAT where electronic receipts are issued and to deny input VAT on imported software. Excise duties are set to increase on selected goods, including fuel, sugar, and plastics, while stamp duty on property transactions will rise alongside new duties on motor vehicles. A waiver for tax arrears predating 2016 is also included, alongside new environmental and sector-specific levies.

Taken together, these changes point to a more expansive and more assertive tax system.

One of the most significant shifts is the deliberate widening of the tax base. Bringing gains from non-business asset disposals into the tax net marks a departure from past practice, where such gains, particularly on personal property, often went untaxed. The introduction of a 6 percent withholding tax at the point of transaction effectively shifts the burden of compliance from the seller to the buyer, ensuring that tax is collected upfront.

"This is not just a policy change; it is an enforcement mechanism embedded in the law," one analyst observes. For taxpayers, this means transactions that were previously

tax-neutral may now carry immediate tax implications.

Another notable proposal is the introduction of a 0.5 percent minimum tax on gross income for businesses that have reported losses for more than seven years. The government's rationale is straightforward: some companies continue to operate while consistently declaring losses, raising concerns about tax avoidance. By imposing a minimum tax, the state ensures that all businesses contribute something to public revenue.

However, the measure has drawn criticism. Some argue it could unfairly affect legitimate businesses still recovering or investing in long-term growth. As one private sector stakeholder cautions, "not all losses are artificial; some are the cost of long-term investment."

The reclassification of software payments as royalties is another subtle but impactful change. Previously taxed at 5 percent under digital services, these payments will now attract a 15 percent withholding tax. While the move is intended to better reflect the economic nature of such transactions and increase revenue from cross-border services, it is likely to raise operational costs for businesses that rely on imported software, costs that may ultimately be passed on to consumers.

In the VAT space, the reforms strike a more balanced tone. Raising the registration threshold to Shs 250 million effectively removes many small businesses from the VAT net. The logic is pragmatic: smaller taxpayers generate limited revenue but require significant administrative oversight. By excluding them, the tax authority can focus on larger, higher-value taxpayers.

At the same time, compliance is being strengthened through technology. The removal of withholding VAT for businesses using the Electronic Fiscal Receipting and Invoicing System (EFRIS) acts as an incentive for digital compliance. However, not all changes are favourable. Denying input VAT on imported software introduces an additional cost burden in an increasingly digital economy.

Excise duty changes further highlight the government's dual objective of raising revenue

while influencing behaviour. Higher taxes on fuel, sugar, plastics, and alcohol are expected to generate income while also addressing environmental and public health concerns.

Yet these taxes rarely remain confined to producers. As one economist notes, "excise taxes rarely remain with producers; they flow through to prices". For households, this means a higher cost of living. For businesses, it may result in reduced demand or tighter profit margins.

Stamp duty reforms follow a similar logic. Increasing rates on property and share transfers from 1.5 percent to 3 percent, alongside new duties on vehicle registrations, reflects a growing emphasis on transaction-based taxation. While this is expected to boost revenue, it may also discourage formal transactions, particularly in sectors like real estate where costs are already high.

Beyond tax rates, the reforms also address administrative challenges. The proposed waiver of tax arrears predating 2016 is a significant step toward clearing long-standing disputes that have burdened both taxpayers and the tax authority. At the same time, adjustments to penalties, such as reduced fines for possession of unstamped goods, suggest a more proportionate approach to enforcement.

However, this flexibility is balanced by stricter compliance measures. Clearer penalties for failing to use EFRIS signal a shift toward a more technology-driven enforcement system. For taxpayers, this creates a mixed picture: relief from past liabilities, but increased scrutiny going forward.

Ultimately, the 2026 tax proposals reflect a government intent on building a broader, more predictable, and more enforceable tax system.

The underlying reality is simple. Uganda must increasingly finance its development from within. But as these reforms take shape, they raise an important question: how much tax is too much?

For businesses and individuals alike, the coming financial year will demand more than compliance. It will require adjustment, planning, and, in some cases, difficult trade-offs. As the author notes, "the tax system is evolving, and taxpayers must evolve with it."